

August 11, 2017

## GSK Consumer (GLACON)

₹ 5325

### Initiatives to pay off...

- Amid de-stocking ahead of GST implementation and a tepid demand environment, total revenues (including auxiliary income) declined only 1.3% YoY to ₹ 1045.9 crore (I-direct estimate: ₹ 977.0 crore). Though revenues were impacted by disruption in CSD & wholesale channels, GSK's initiatives like rolling out of various schemes, extended credit period and compensation for tax difference helped restricted any fall in volumes. Volumes remained flat for the quarter
- Cost of raw material increased significantly by 668 bps as percent of sales. Additionally, against our estimate of decline in advertisement cost, the company reported increase in its advertisement expense at 12.2% of net sales vs. 11.5% in the same quarter last year. Excise duty for the quarter was 47.6%, down YoY to ₹ 60.5 crore. Thus, EBITDA for the quarter declined 18.3% YoY & EBITDA margin contracted 331 bps YoY to 15.9% (I-direct estimate: 19.1%)
- Due to a decline in EBITDA, profit for the quarter reported a decline of 17.7% YoY to ₹ 132.2 crore (I-direct estimate: ₹ 156.0 crore)

### Product innovation, initiatives to improve penetration to aid growth

GCHL is the market leader in the Indian health food drinks (HFD) industry (market share of 55.5% by value for Q1FY18). Malt-based drinks category contributes ~91% to GCHL's revenues. According to industry reports, the domestic malt based beverage market is estimated at ~₹ 7800 crore for 2016. GCHL, with strong brands - *Horlicks* and *Boost*, and continued product innovation coupled with various campaigns has successfully reported 10.5% CAGR in total operating income in CY10-FY17. On account of trade disruptions in the quarter and slower-than-expected recovery in growth, we revise our estimates downwards for both FY18E and FY19E. We now expect the company to report revenue CAGR of 8.0% (ex-auxiliary income) over FY17-19E to ₹ 4911.0 crore. Auxiliary income is expected to post 12.1% and 23.7% growth in FY18E and FY19E, respectively.

### Focus on contextual campaigns & increase in distribution

The company continued to report higher advertisement cost for the quarter despite adverse operating environment at 12.2% of sales against 11.5% in Q1FY17. GCHL's focus on contextual campaigns, which aim to spread awareness about the benefits of the company's product, would drive consumption level. Additionally, emphasis on increasing the distribution reach and increase in penetration level would be the long term growth driver for company. Horlicks reaches 1.8 million (mn) stores as on date (1 mn is direct reach) whereas ENO reached 3.1 mn outlets. The company intends to maintain its annual rate of increasing direct distribution at 0.1 mn outlets every year and expects increasing distribution to aid growth given the low penetration of the category (50% in major markets and only ~20% in northern markets)

### On right path, maintain BUY

Though we have cut our estimates, we remain positive about the company's long term growth prospect considering - a) company's focus on increasing penetration & geographical reach & b) aggressive investment behind brands coupled with premiumisation. We continue to maintain our **BUY** recommendation on the stock with revised target price of ₹ 5960/share valuing it at 32x its FY19E EPS of ₹ 186.2.

| Rating matrix    |   |              |
|------------------|---|--------------|
| Rating           | : | Buy          |
| Target           | : | ₹ 5960       |
| Target Period    | : | 12-15 months |
| Potential Upside | : | 12%          |

| What's changed? |                                 |  |
|-----------------|---------------------------------|--|
| Target          | Changed from ₹ 6074 to ₹ 5960   |  |
| EPS FY18E       | Changed from ₹ 176.3 to ₹ 167.2 |  |
| EPS FY18E       | Changed from ₹ 199.2 to ₹ 186.2 |  |
| Rating          | Unchanged                       |  |

| Quarterly performance |        |        |          |        |          |
|-----------------------|--------|--------|----------|--------|----------|
|                       | Q1FY18 | Q1FY17 | YoY (%)  | Q4FY18 | QoQ (%)  |
| Net Sales             | 1045.9 | 1059.4 | -1.3     | 1208.8 | -13.5    |
| EBITDA                | 166.4  | 203.5  | -18.3    | 217.1  | -23.4    |
| EBITDA (%)            | 15.9   | 19.2   | -331 bps | 18.0   | -205 bps |
| PAT                   | 132.2  | 160.6  | -17.7    | 175.9  | -24.8    |

| Key financials |         |         |         |         |
|----------------|---------|---------|---------|---------|
| ₹ Crore        | FY16    | FY17    | FY18E   | FY19E   |
| Sales          | 4,564.4 | 4,421.1 | 4,733.3 | 5,205.6 |
| EBITDA         | 838.2   | 833.5   | 864.9   | 981.7   |
| Net Profit     | 687.3   | 656.7   | 703.4   | 783.1   |
| EPS (₹)        | 163.4   | 156.1   | 167.2   | 186.2   |

| Valuation summary |      |      |       |       |
|-------------------|------|------|-------|-------|
|                   | FY16 | FY17 | FY18E | FY19E |
| P/E               | 32.6 | 34.1 | 31.8  | 28.6  |
| Target P/E        | 36.5 | 38.2 | 35.6  | 32.0  |
| Div. Yield        | 1.3  | 1.3  | 1.8   | 1.8   |
| Mcap/Sales        | 4.9  | 5.1  | 4.7   | 4.3   |
| RoNW (%)          | 24.6 | 21.0 | 20.2  | 20.7  |
| RoCE (%)          | 35.5 | 30.8 | 28.9  | 29.8  |

| Stock data                            |              |
|---------------------------------------|--------------|
| Particular                            | Amount       |
| Market Capitalization (₹ Crore)       | 22,394.1     |
| Total Debt (FY17) (₹ Crore)           | 0.0          |
| Cash and Investments (FY17) (₹ Crore) | 3,087.4      |
| EV (₹ Crore)                          | 19,306.8     |
| 52 week H/L                           | 6500 / 4708  |
| Equity capital                        | ₹ 42.1 crore |
| Face value                            | ₹ 10         |

| Price performance |      |      |      |       |
|-------------------|------|------|------|-------|
|                   | 1M   | 3M   | 6M   | 12M   |
| GSK Consumer      | -2.2 | -0.1 | -4.0 | -14.7 |
| Nestle            | -3.4 | -4.9 | 6.8  | -3.4  |
| Colgate           | -4.2 | 2.7  | 8.6  | 8.8   |
| HUL               | 5.1  | 15.8 | 40.3 | 24.7  |

| Research Analyst                      |  |
|---------------------------------------|--|
| Sanjay Manyal                         |  |
| sanjay.manyal@icicisecurities.com     |  |
| Tejashwini Kumari                     |  |
| tejashwini.kumari@icicisecurities.com |  |

### Variance analysis

|                              | Q1FY18  | Q1FY18E | Q1FY17  | YoY (%)  | Q4FY18  | QoQ (%)  | Comments                                                                                                                                                                                             |
|------------------------------|---------|---------|---------|----------|---------|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Gross Sales                  | 1,045.9 | 977.0   | 1,059.4 | -1.3     | 1,208.8 | -13.5    | Due to GST transition, sales declined by 1.3%; volume for the quarter was flat. CSD and Wholesale trade disruption led to 3% and 1% consumption loss, respectively. Effective price hike was ~3% YoY |
| Raw Material Expenses        | 342.6   | 293.1   | 276.3   | 24.0     | 376.4   | -9.0     | Raw material grew significantly by 668 bps as a percent of net sales on account of increase in milk and wheat prices                                                                                 |
| Employee Expenses            | 133.8   | 107.5   | 126.2   | 6.0      | 103.6   | 29.1     |                                                                                                                                                                                                      |
| SG&A Expenses                | 127.8   | 112.4   | 121.6   | 5.2      | 173.5   | -26.3    | to support new launches and drive demand, advertisement cost remained elevated at 12.2% of sales against 11.5% in Q1FY17                                                                             |
| Excise duty                  | 60.5    | 83.7    | 115.5   | -47.6    | 106.9   | -43.4    | Significant decline owing to change in accounting method                                                                                                                                             |
| Other operating Expenses     | 214.8   | 53.7    | 216.4   | -0.7     | 231.2   | -7.1     |                                                                                                                                                                                                      |
| EBITDA                       | 166.4   | 186.4   | 203.5   | -18.3    | 217.1   | -23.4    | Lower sales coupled with higher raw material cost led to sharp decline in EBITDA                                                                                                                     |
| EBITDA Margin (%)            | 15.9    | 19.1    | 19.2    | -331 bps | 18.0    | -205 bps | Margin contracted by 331 bps for the quarter                                                                                                                                                         |
| Depreciation                 | 17.0    | 17.7    | 14.7    | 16.0     | 17.7    | -3.9     |                                                                                                                                                                                                      |
| Interest                     | 0.5     | 0.0     | 0.6     | -15.6    | 0.9     | -37.9    |                                                                                                                                                                                                      |
| Other Income                 | 55.7    | 64.0    | 59.2    | -5.9     | 71.0    | -21.5    |                                                                                                                                                                                                      |
| PBT                          | 204.5   | 232.8   | 247.4   | -17.3    | 269.5   | -24.1    |                                                                                                                                                                                                      |
| Exceptional Items            | 0.0     | 0.0     | 0.0     | NA       | 0.0     | NA       |                                                                                                                                                                                                      |
| Tax Outgo                    | 72.3    | 76.8    | 86.8    | -16.7    | 93.6    | -22.8    |                                                                                                                                                                                                      |
| PAT                          | 132.2   | 156.0   | 160.6   | -17.7    | 175.9   | -24.8    | PAT declined by 17.75 on account of decline in EBITDA                                                                                                                                                |
| <b>Key Metrics (%)</b>       |         |         |         |          |         |          |                                                                                                                                                                                                      |
| Horlicks volume market share | 49.9    |         | NA      |          | 50.6    |          | Lost market share to the super premium category on account of lower rural demand and slow movement in wholesale channel                                                                              |
| Boost volume market share    | NA      |         | NA      |          | NA      |          |                                                                                                                                                                                                      |

Source: Company, ICICIdirect.com Research

### Change in estimates

| (₹ Crore)         | FY18E   |         |          | FY19E   |         |          | Comments                                                                                                |
|-------------------|---------|---------|----------|---------|---------|----------|---------------------------------------------------------------------------------------------------------|
|                   | Old     | New     | % Change | Old     | New     | % change |                                                                                                         |
| Sales             | 5,072.4 | 4,733.3 | -6.7     | 5,760.4 | 5,205.6 | -9.6     | Revised sales downwards given the muted performance during the quarter and maintaining cautious outlook |
| EBITDA            | 921.1   | 864.9   | -6.1     | 1,063.4 | 981.7   | -7.7     |                                                                                                         |
| EBITDA Margin (%) | 18.2    | 18.3    | 7 bps    | 18.5    | 18.9    | 36 bps   | Maintain the operating margin on account of various cost saving initiatives                             |
| PAT               | 741.4   | 703.4   | -5.1     | 837.9   | 783.1   | -6.5     | With the change in sales estimates, we have also revised earning estimates downwards                    |
| EPS (₹)           | 176.3   | 167.2   | -5.1     | 199.2   | 186.2   | -6.5     |                                                                                                         |

Source: Company, ICICIdirect.com Research

### Assumptions

|                             | Current |         | Earlier |         | Comments |         |                                                                                            |
|-----------------------------|---------|---------|---------|---------|----------|---------|--------------------------------------------------------------------------------------------|
|                             | FY16    | FY17E   | FY18E   | FY19E   | FY18E    | FY19E   |                                                                                            |
| Malt based foods (₹ crore)  | 4,330.7 | 4,019.8 | 4,284.1 | 4,678.2 | 4,474.0  | 5,074.5 | Slower growth is leading to cut in estimates                                               |
| Malt based food vol. gr (%) | 6.0     | -9.0    | 1.5     | 4.0     | 5.0      | 7.0     |                                                                                            |
| RM/Sales (%)                | 29.4    | 29.3    | 29.9    | 29.5    | 33.6     | 33.3    |                                                                                            |
| Marketing exp/Sales (%)     | 11.9    | 12.2    | 12.0    | 12.0    | 12.0     | 12.0    |                                                                                            |
| Auxiliary income (₹ crore)  | 202.1   | 212.5   | 238.2   | 294.7   | 375.7    | 426.7   | Based on the muted performance during the quarter, we are revising our estimates downwards |

Source: Company, ICICIdirect.com Research

## Conference call highlights

- The company reported a marginal decline of 1.3% in gross sales for the quarter. Volume for the quarter remained flat. The underlying price hike was 3.1% YoY during the quarter. Trade promotions and schemes, compensation of tax difference to trade partners, extended credit period were the initiatives undertaken by the company in order to swiftly pass through the GST transition. These initiatives cost the company ₹ 23 crore. Auxiliary income was down ~7% YoY
- De-stocking at the CSD and wholesale level adversely impacted the company and led to consumption loss of 3% and 1%, respectively. Price hike and cost saving activities were undertaken to counter commodity inflation
- Horlicks' market share at the end of Q1FY18 was 49.9% in volume terms and 44.2% in value terms against 50.6% and 44.8%, respectively, in Q4FY17
- The sachet business, which contributes ~7% reported double digit volume growth during the quarter
- The company continued to report higher advertisement cost. It was at 12.2% of sales against 11.5% in Q1FY17. It continued campaigns to spread awareness about micronutrient deficiency among children (nine out of 10 children suffer from this deficiency irrespective of family income level) and contextual campaigns (supported by celebrities). Celebrity campaigns in southern India are now extended to Bihar and West Bengal now
- Management indicated that as per Nielsen data, the consumption of the malt based category has witnessed consumption growth in mid single digit in Q2FY18 so far
- GST impact on company is neutral taking into consideration the benefits of input tax credit. GST rate for majority of company's portfolio is at 28%. Pre GST it was 14% VAT and 12.5% excise duty plus entry/octroi, etc
- GHCL remains optimistic about growth aided by a) continued innovation in the premium high science product category, b) cost savings across line items, c) investing behind brands and contextual campaigns, d) increasing the penetration level by increasing direct reach.
- Horlicks reaches 1.8 mn stores as on date (1 mn is direct reach), whereas Eno reached 3.1 mn outlets. The company intends to maintain its annual rate of increasing direct distribution at 0.1 mn outlets every year and expects increasing distribution to aid growth given the low penetration of the category (50% in major markets and only ~20% in northern markets)

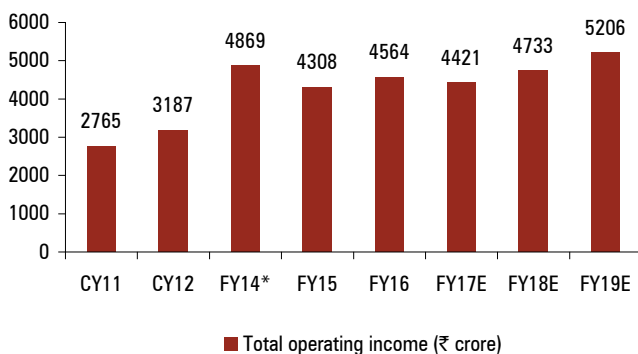
## Company Analysis

### Market leadership, continuous effort to increase penetration to aid growth

Over the years, GSK Consumer Healthcare (GCHL) has been a market leader in the Indian health food drinks (HFD) industry with a market share of 55.5% by value (Q1FY18). Malt-based drinks category contributes ~91% to GCHL's revenues. As per industry reports, the malt based beverage market has grown 2.7x over FY02-14 to ~₹ 6000 crore in 2014 and is estimated at ~₹ 7800 crore for 2016. India is the largest malt-based drinks market globally accounting for ~41% of retail volume sales and expected to reach 47% by 2020E. GCHL, being an established player in this segment, with strong brands - *Horlicks* and *Boost*, has benefited with 10.5% CAGR in total operating income over CY10-FY17. Further, GCHL added ~243000 outlets in Q4FY16, taking its distribution reach to ~4.3 million outlets (both direct & indirect) from ~4 million outlets in Q4FY15. Currently it has one million outlets under direct coverage & company intends to expand it further.

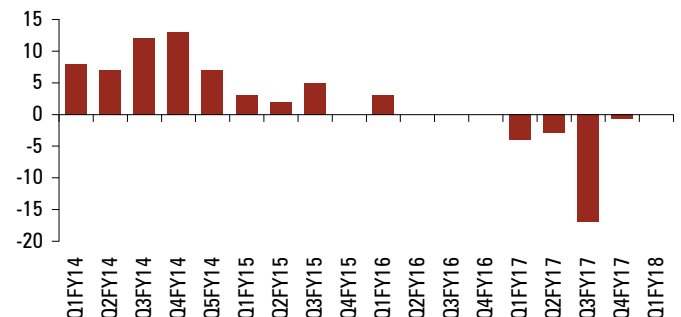
On account of trade disruptions in the quarter and slower-than-expected recovery in growth, we revise our estimates downwards for both FY18E and FY19E. We now expect the company to report revenue CAGR of 8.0% (ex-auxiliary income) over FY17-19E to ₹ 4911.0 crore. Auxiliary income is expected to post 12.1% and 23.7% growth in FY18E and FY19E, respectively. Total revenue for the company is estimated to report CAGR of 8.5% over FY17-19E to ₹ 5205.6 crore for FY19E.

**Exhibit 1: Sales to grow at CAGR of 8.5% over FY17E-19E**



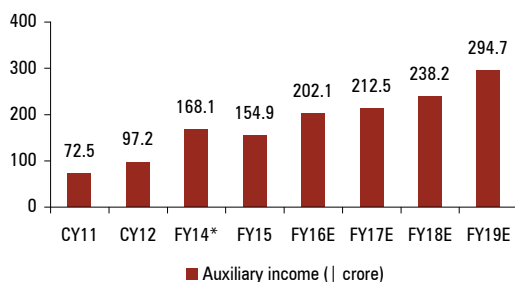
Source: Company, ICICIdirect.com Research

**Exhibit 2: Domestic volume growth (%) – remained flat for the quarter**



Source: Company, ICICIdirect.com Research

**Auxiliary income to grow at 17.7% CAGR in FY17-19E**



Source: Company, ICICIdirect.com Research

\* FY14 numbers are for 15 months

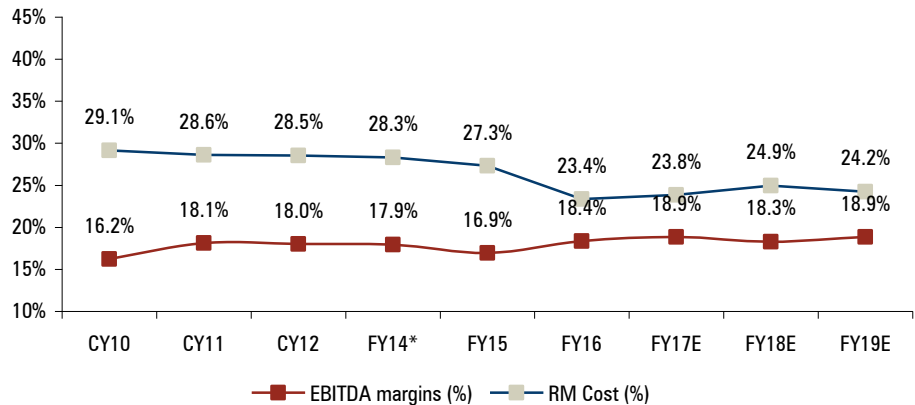
### Auxiliary income to clock 17.7% CAGR over FY17-19E

GCHL earns business auxiliary service commission from certain group companies (GlaxoSmithKline Asia Pvt Ltd and GlaxoSmithKline Pharmaceuticals) for services rendered towards selling and distribution of the latter's products (Crocina, Eno, Iodex, Breathe Right, Sensodyne). It witnessed a CAGR of 25.6% from ₹ 46.7 crore in CY09 to ₹ 212.5 crore in FY17. In April 2016, the rate for commission was revised from 16.5% earlier to 15.0%. Additionally, from Q2FY17 onwards, the auxiliary income also includes income from the recently acquired Novartis' OTC segment. GSK has cemented its position with Eno brand in the ~₹ 1180 crore digestive market with 45.8% market share. Eno is currently growing at ~30%. This bodes well for GCHL. We expect auxiliary income to post 12.1% and 23.7% YoY growth in FY18E and FY19E, respectively.

### Margin to remain capped amid inflationary environment

GCHL's operating margins increased from 16% in CY09 to 17.9% in FY14 led by change in product mix and sustainable price hikes taken by the company. However, margins dipped to 16.9% in FY15 on the back of higher employee cost and persistently higher A&P expenses. However, in FY17, reported operating margin of 18.9%. Going forward, we expect the operating margin to remain capped amid the inflationary environment and investment behind brand building and distribution expansion. Thus, we estimate the operating margin of 18.3% and 18.9% for FY18E and FY19E, respectively.

**Exhibit 3: Raw material cost (%) & EBITDA margin (%) trend**



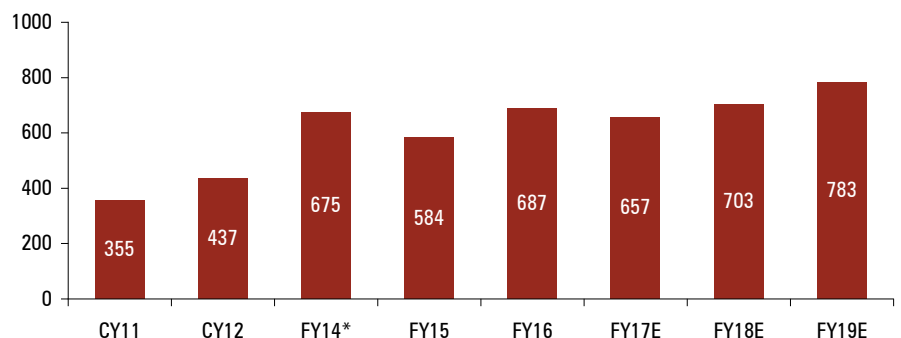
Source: Company, ICICIdirect.com Research

\* FY14 numbers are for 15 months and FY16 onwards, numbers are in IND-AS

### Net profit to grow at 13.0% CAGR over FY17-19E

GCHL posted 13.9% CAGR increase in its profit during CY10-FY17 largely on the back of improved operating margins. We estimate depreciation will increase, going forward (from ₹ 64.2 crore in FY17 to ₹ 81.7 crore for FY19E) due to the capex plans of the company, ₹ 600-700 crore over the next three years. We, thus, expect net profit growth at 9.2% CAGR over FY17-19E to ₹ 783.1 crore in FY19E.

**Exhibit 4: PAT trend (₹ crore)**



Source: Company, ICICIdirect.com Research

\* FY14 numbers are for 15 months

## Outlook & Valuation

GCHL's 'Horlicks' has become synonymous with its category and enjoys formidable leadership in the domestic HFD industry. GCHL complements Horlicks (white malt drink) with its presence in the brown malted food drinks category with 'Boost'. Apart from this, strong brands of GlaxoSmithKline Plc, the sixth-largest pharmaceutical company in the world and parent company of GCHL, have always been an added advantage for the company. The company has launched many products in India with similar brand names (Sensodyne, Parodontax), capturing the brand value of GlaxoSmithKline Plc's product.

We estimate 8.5% CAGR in revenue in FY17-19E and 9.2% CAGR in PAT over the same period. However, we believe the inflationary environment would cap the operating margin at 18.3% and 18.9% in FY18E and FY19E, respectively. Though we have cut our estimates on account of slower-than-expected growth in the category, we remain positive about the company's long term growth prospect considering - a) company's focus on increasing penetration & geographical reach & b) aggressive investment behind brands coupled with premiumisation. We continue to maintain our **BUY** recommendation on the stock with a revised target price of ₹ 5960/share valuing it at 32x its FY19E EPS of ₹ 186.2.

**Exhibit 5: Valuations**

|       | Sales<br>(₹ cr) | Growth<br>(%) | EPS<br>(₹) | Growth<br>(%) | PE<br>(x) | EV/EBITDA<br>(x) | RoNW<br>(%) | RoCE<br>(%) |
|-------|-----------------|---------------|------------|---------------|-----------|------------------|-------------|-------------|
| FY16  | 4564.4          | 6.0           | 163.4      | 17.8          | 32.6      | 23.5             | 24.6        | 35.5        |
| FY17  | 4421.1          | -3.1          | 156.1      | -4.5          | 34.1      | 23.2             | 21.0        | 30.8        |
| FY18E | 4733.3          | 7.1           | 167.2      | 7.1           | 31.8      | 22.0             | 20.2        | 28.9        |
| FY19E | 5205.6          | 10.0          | 186.2      | 11.3          | 28.6      | 19.2             | 20.7        | 29.8        |

Source: Company, ICICIdirect.com Research

### Recommendation history vs. Consensus



Source: Bloomberg, Company, ICICIdirect.com Research

### Key events

| Date   | Event                                                                                                                    |
|--------|--------------------------------------------------------------------------------------------------------------------------|
| Jan-08 | Women's Horlicks launched in the market                                                                                  |
| Dec-09 | Launches Horlicks Asha, priced ~40% cheaper to base brand, targeted at price-sensitive mass consumer                     |
| Mar-10 | Drives Horlicks brand extension with the launch of Horlicks Foodles instant noodles                                      |
| Jan-11 | Enters the sensitive toothpaste category with the launch of its global brand Sensodyne                                   |
| Nov-11 | Expands the foods portfolio with the launch of Horlicks Oats                                                             |
| Nov-12 | Sensodyne overtakes Colgate Sensitive to capture the largest market share in the sensitive toothpaste category           |
| Feb-13 | Parent company GlaxoSmithKline Plc raises its stake in the company to 72.46% from 43.16% with ₹ 4800 crore share buyback |
| Feb-13 | Launches another global brand Parodontax toothpaste in India to address the problem of bleeding gums                     |
| CY13   | Women's Horlicks becomes ₹ 100 crore brand                                                                               |
| May-15 | Excise benefits enjoyed by the company at its Baddi facility expire                                                      |

Source: Company, ICICIdirect.com Research

### Top 10 Shareholders

| Rank | Name                                             | Latest Filing Date | % O/S | Position (m) | Change (m) (in %) | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 |
|------|--------------------------------------------------|--------------------|-------|--------------|-------------------|--------|--------|--------|--------|--------|
| 1    | GlaxoSmithKline PLC                              | 30-Jun-17          | 72.46 | 30.5         | 0.0 Promoter      | 72.5   | 72.5   | 72.5   | 72.5   | 72.5   |
| 2    | ICICI Prudential Asset Management Co. Ltd.       | 30-Jun-17          | 3.31  | 1.4          | 0.0 FII           | 8.0    | 8.7    | 7.3    | 8.4    | 8.4    |
| 3    | LIC Mutual Fund Asset Management Company Ltd.    | 30-Jun-17          | 2.43  | 1.0          | 0.2 DII           | 4.4    | 4.7    | 5.9    | 4.8    | 4.8    |
| 4    | UTI Asset Management Co. Ltd.                    | 30-Jun-17          | 0.88  | 0.4          | 0.0 Others        | 15.1   | 14.2   | 14.4   | 14.4   | 14.4   |
| 5    | The Vanguard Group, Inc.                         | 30-Jun-17          | 0.80  | 0.3          | 0.0               |        |        |        |        |        |
| 6    | Birla Sun Life Asset Management Company Ltd.     | 30-Jun-17          | 0.61  | 0.3          | 0.0               |        |        |        |        |        |
| 7    | HSBC Global Asset Management (Hong Kong) Limited | 30-Apr-17          | 0.43  | 0.2          | 0.0               |        |        |        |        |        |
| 8    | Wasatch Advisors, Inc.                           | 31-Mar-17          | 0.40  | 0.2          | -0.1              |        |        |        |        |        |
| 9    | SBI Funds Management Pvt. Ltd.                   | 30-Jun-17          | 0.35  | 0.1          | 0.0               |        |        |        |        |        |
| 10   | Sundaram Asset Management Company Limited        | 31-May-17          | 0.33  | 0.1          | 0.0               |        |        |        |        |        |

Source: Reuters, ICICIdirect.com Research

### Recent Activity

| Buys                                          |        |        | Sells                                                 |        |        |
|-----------------------------------------------|--------|--------|-------------------------------------------------------|--------|--------|
| Investor name                                 | Value  | Shares | Investor name                                         | Value  | Shares |
| LIC Mutual Fund Asset Management Company Ltd. | 13.23m | 0.16m  | Wasatch Advisors, Inc.                                | -9.43m | -0.12m |
| Emirates NBD Asset Management Limited         | 0.18m  | 0m     | Franklin Templeton Asset Management (India) Pvt. Ltd. | -3.21m | -0.04m |
| Sundaram Asset Management Company Limited     | 0m     | 0m     | ICICI Prudential Asset Management Co. Ltd.            | -2.64m | -0.03m |
| IDBI Asset Management Limited                 | 0m     | 0m     | APG Asset Management                                  | -2.15m | -0.03m |
| SBI Funds Management Pvt. Ltd.                | 0m     | 0m     | Tata Asset Management Limited                         | -1.85m | -0.02m |

Source: Reuters, ICICIdirect.com Research

## Financial summary

| Profit and loss statement   | ₹ Crore |        |        |        |
|-----------------------------|---------|--------|--------|--------|
| (Year-end March)            | FY16    | FY17   | FY18E  | FY19E  |
| Total operating Income      | 4564.4  | 4421.1 | 4733.3 | 5205.6 |
| Growth (%)                  | 6.0     | -3.1   | 7.1    | 10.0   |
| Raw Material Expenses       | 1343.5  | 1296.9 | 1416.7 | 1536.1 |
| Employee Expenses           | 505.0   | 458.0  | 497.0  | 546.6  |
| Marketing Expenses          | 544.1   | 514.7  | 568.0  | 624.7  |
| Administrative Expenses     | 280.8   | 234.5  | 246.1  | 265.5  |
| Other expenses              | 624.7   | 648.8  | 691.1  | 760.0  |
| Total Operating Expenditure | 3726.2  | 3587.6 | 3868.3 | 4224.0 |
| EBITDA                      | 838.2   | 833.5  | 864.9  | 981.7  |
| Growth (%)                  | 14.8    | -0.6   | 3.8    | 13.5   |
| Depreciation                | 57.4    | 64.2   | 70.7   | 81.7   |
| Interest                    | 2.3     | 2.8    | 0.5    | 0.0    |
| Other Income                | 277.5   | 243.9  | 256.1  | 268.9  |
| PBT                         | 1056.0  | 1010.4 | 1049.8 | 1168.9 |
| Others                      | 0       | 0      | 0      | 0      |
| Total Tax                   | 368.7   | 353.7  | 346.4  | 385.7  |
| PAT                         | 687.3   | 656.7  | 703.4  | 783.1  |
| Growth (%)                  | 17.8    | -4.5   | 7.1    | 11.3   |
| EPS (₹)                     | 163.4   | 156.1  | 167.2  | 186.2  |

Source: Company, ICICIdirect.com Research

| Cash flow statement              | ₹ Crore |         |         |         |
|----------------------------------|---------|---------|---------|---------|
| (Year-end March)                 | FY16    | FY17    | FY18E   | FY19E   |
| Profit After Tax                 | 704.0   | 648.6   | 703.4   | 783.1   |
| Add: Depreciation                | 57.4    | 64.2    | 70.7    | 81.7    |
| (Inc)/dec in Current Assets      | -73.6   | -72.9   | -96.4   | -115.2  |
| Inc/(dec) in CL and Provisions   | 129.3   | 179.3   | 279.2   | 130.6   |
| CF from operating activities     | 573.4   | 622.6   | 956.9   | 880.2   |
| (Inc)/dec in Investments         | 0.0     | 0.0     | 10.0    | 10.0    |
| (Inc)/dec in LT loans & advances | 0.0     | 0.0     | 0.0     | 0.0     |
| (Inc)/dec in Fixed Assets        | -52.1   | -65.7   | -400.8  | -200.0  |
| Others                           | 0.0     | 0.0     | -20.0   | -20.0   |
| CF from investing activities     | -151.6  | -621.8  | -320.5  | -210.0  |
| Issue/(Buy back) of Equity       | 0.0     | 0.0     | 0.0     | 0.0     |
| Inc/(dec) in loan funds          | 0.0     | 0.0     | 0.0     | 0.0     |
| Dividend paid & dividend tax     | -278.4  | -354.3  | -347.4  | -471.5  |
| Others                           | -2.3    | -2.8    | -0.5    | 0.0     |
| CF from financing activities     | -285.7  | -361.5  | -348.0  | -471.5  |
| Net Cash flow                    | 136.2   | -360.7  | 288.5   | 198.7   |
| Opening Cash                     | 925.4   | 1,061.6 | 700.9   | 989.4   |
| Cash with Bank                   | 1650.6  | 2386.5  | 2386.5  | 2386.5  |
| Closing Cash                     | 2,712.2 | 3,087.4 | 3,375.9 | 3,574.7 |

Source: Company, ICICIdirect.com Research

| Balance sheet                  | ₹ Crore |         |         |         |
|--------------------------------|---------|---------|---------|---------|
| (Year-end March)               | FY16    | FY17    | FY18E   | FY19E   |
| Liabilities                    |         |         |         |         |
| Equity Capital                 | 42.1    | 42.1    | 42.1    | 42.1    |
| Reserve and Surplus            | 2756.6  | 3080.6  | 3436.6  | 3748.2  |
| Total Shareholders funds       | 2798.7  | 3122.7  | 3478.6  | 3790.3  |
| LT Borrowings & Provisions     | 2.1     | 0.0     | 0.0     | 0.0     |
| Deferred Tax Liability         | 0.0     | 0.0     | 0.0     | 0.0     |
| Others Non-current Liabilities | 0.0     | 0.0     | 0.0     | 0.0     |
| Total Liabilities              | 3038.7  | 3359.1  | 3695.0  | 3986.7  |
| Assets                         |         |         |         |         |
| Gross Block                    | 1,106.3 | 1,185.1 | 1,385.1 | 1,585.1 |
| Less: Acc Depreciation         | 625.0   | 689.2   | 759.8   | 841.5   |
| Net Block                      | 481.3   | 495.9   | 625.2   | 743.6   |
| Capital WIP                    | 51.4    | 49.2    | 250.0   | 250.0   |
| Net Intangible Assets          |         |         |         |         |
| Non-current Investments        | 40.9    | 52.3    | 52.3    | 52.3    |
| LT loans & advances            | 14.0    | 11.7    | 13.0    | 14.3    |
| Current Assets                 |         |         |         |         |
| Inventory                      | 461.6   | 461.1   | 531.7   | 584.7   |
| Debtors                        | 354.2   | 321.0   | 350.1   | 385.1   |
| Loans and Advances             | 14.0    | 11.7    | 13.0    | 14.3    |
| Other Current Assets           | 215.5   | 263.4   | 259.4   | 285.2   |
| Cash                           | 2,712.3 | 3,087.4 | 3,375.9 | 3,574.7 |
| Deferred Tax Assests           | 113.1   | 127.8   | 117.8   | 107.8   |
| Current Liabilities            |         |         |         |         |
| Creditors                      | 785.2   | 860.4   | 907.8   | 941.3   |
| Provisions                     | 272.4   | 332.3   | 389.0   | 427.9   |
| Short term debt & other CL     | 399.1   | 408.4   | 583.6   | 641.8   |
| Application of Funds           | 3,038.7 | 3,359.1 | 3,695.0 | 3,986.7 |

Source: Company, ICICIdirect.com Research

| Key ratios                   | ₹ Crore |       |       |       |
|------------------------------|---------|-------|-------|-------|
| (Year-end March)             | FY16    | FY17  | FY18E | FY19E |
| Per share data (₹)           |         |       |       |       |
| EPS                          | 163.4   | 156.1 | 167.2 | 186.2 |
| Cash EPS                     | 177.1   | 171.4 | 184.0 | 205.6 |
| BV                           | 665.4   | 742.4 | 827.1 | 901.2 |
| DPS                          | 70.0    | 70.0  | 95.0  | 95.0  |
| Cash Per Share               | 644.9   | 734.0 | 802.6 | 849.9 |
| Operating Ratios (%)         |         |       |       |       |
| EBITDA Margin                | 18.4    | 18.9  | 18.3  | 18.9  |
| PBT / Total Operating income | 23.1    | 22.9  | 22.2  | 22.5  |
| PAT Margin                   | 15.1    | 14.9  | 14.9  | 15.0  |
| Inventory days               | 36.9    | 38.1  | 41.0  | 41.0  |
| Debtor days                  | 28.3    | 26.5  | 27.0  | 27.0  |
| Creditor days                | 62.8    | 71.0  | 70.0  | 66.0  |
| Return Ratios (%)            |         |       |       |       |
| RoE                          | 24.6    | 21.0  | 20.2  | 20.7  |
| RoCE                         | 35.5    | 30.8  | 28.9  | 29.8  |
| Valuation Ratios (x)         |         |       |       |       |
| P/E                          | 32.6    | 34.1  | 31.8  | 28.6  |
| EV / EBITDA                  | 23.5    | 23.2  | 22.0  | 19.2  |
| EV / Net Sales               | 4.3     | 4.4   | 4.0   | 3.6   |
| Market Cap / Sales           | 4.9     | 5.1   | 4.7   | 4.3   |
| Price to Book Value          | 8.0     | 7.2   | 6.4   | 5.9   |
| Solvency Ratios              |         |       |       |       |
| Debt/EBITDA                  | 0.0     | 0.0   | 0.0   | 0.0   |
| Debt / Equity                | 0.0     | 0.0   | 0.0   | 0.0   |
| Current Ratio                | 0.7     | 0.7   | 0.6   | 0.6   |
| Quick Ratio                  | 0.4     | 0.4   | 0.3   | 0.3   |

Source: Company, ICICIdirect.com Research

## ICICIdirect.com coverage universe (FMCG)

| Sector / Company            | CMP   |       | Rating | M Cap<br>(₹ Cr) | EPS (₹) |       |       | P/E (x) |       |       | Price/Sales (x) |       |       | RoCE (%) |       |       | RoE (%) |       |       |
|-----------------------------|-------|-------|--------|-----------------|---------|-------|-------|---------|-------|-------|-----------------|-------|-------|----------|-------|-------|---------|-------|-------|
|                             | (₹)   | TP(₹) |        |                 | FY17E   | FY18E | FY19E | FY17E   | FY18E | FY19E | FY17E           | FY18E | FY19E | FY17E    | FY18E | FY19E | FY17E   | FY18E | FY19E |
| Colgate (COLPAL)            | 1,047 | 1,150 | Hold   | 29,320          | 21.2    | 23.4  | 28.6  | 49.3    | 44.8  | 40.2  | 6.5             | 6.3   | 5.6   | 64.1     | 66.7  | 69.5  | 45.3    | 46.7  | 48.8  |
| Dabur India (DABIND)        | 303   | 320   | Hold   | 53,925          | 7.2     | 7.4   | 8.0   | 41.9    | 40.8  | 40.0  | 7.0             | 6.5   | 6.0   | 28.0     | 25.5  | 25.4  | 26.4    | 23.3  | 22.5  |
| GSK CH (GLACON)             | 5,325 | 5,960 | Buy    | 22,757          | 156.1   | 167.2 | 186.2 | 34.1    | 31.8  | 32.0  | 5.1             | 4.8   | 4.4   | 30.8     | 28.9  | 29.8  | 21.0    | 20.2  | 20.7  |
| Hindustan Unilever (HINLEV) | 1,153 | 1,180 | Hold   | 248,832         | 20.8    | 25.1  | 28.1  | 55.4    | 45.9  | 42.1  | 7.3             | 6.7   | 6.1   | 74.9     | 91.1  | 87.6  | 66.6    | 76.2  | 72.1  |
| ITC Limited (ITC)           | 272   | 320   | Buy    | 350,513         | 8.4     | 8.9   | 9.9   | 32.3    | 30.5  | 32.3  | 6.4             | 5.7   | 5.3   | 32.9     | 31.6  | 34.3  | 22.5    | 21.9  | 23.8  |
| Jyothy Lab (JYOLAB)         | 376   | 370   | Hold   | 7,088           | 11.1    | 9.8   | 10.6  | 33.8    | 38.4  | 34.9  | 4.2             | 4.0   | 3.5   | 28.1     | 24.5  | 27.6  | 30.9    | 25.3  | 25.1  |
| Marico (MARLIM)             | 320   | 340   | Hold   | 42,106          | 6.3     | 6.9   | 8.5   | 50.9    | 46.7  | 40.1  | 7.1             | 6.3   | 5.5   | 44.6     | 42.8  | 46.2  | 34.9    | 33.8  | 36.8  |
| Nestle (NESIND)             | 6,544 | 7,600 | Buy    | 65,427          | 103.9   | 129.4 | 157.8 | 63.0    | 50.6  | 48.2  | 7.0             | 6.1   | 5.4   | 34.9     | 36.0  | 45.3  | 36.2    | 39.3  | 45.2  |
| Prabhat Dairy (PRADAI)      | 131   | 140   | Buy    | 1,289           | 4.8     | 6.4   | 9.5   | 27.5    | 20.5  | 13.9  | 0.9             | 0.8   | 0.7   | 8.0      | 9.7   | 12.2  | 5.1     | 6.8   | 9.7   |
| Tata Global Bev (TATGLO)    | 164   | 195   | Buy    | 10,697          | 7.2     | 7.7   | 8.2   | 22.8    | 21.3  | 23.9  | 1.6             | 1.5   | 1.4   | 8.8      | 9.1   | 9.3   | 7.2     | 7.7   | 7.8   |
| VST Industries (VSTIND)     | 2,622 | 3,450 | Buy    | 4,608           | 103.8   | 123.1 | 143.6 | 25.3    | 21.3  | 24.0  | 2.0             | 1.9   | 1.7   | 43.7     | 46.4  | 48.5  | 29.9    | 32.5  | 34.4  |

Source: Company, ICICIdirect.com Research

#### **RATING RATIONALE**

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICIdirect.com Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
**research@icicidirect.com****

## ANALYST CERTIFICATION

We /I, Sanjay Manyal, MBA (Finance) and Tejashwini Kumari, MBA (Finance), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Sanjay Manyal, MBA (Finance) and Tejashwini Kumari, MBA (Finance), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. It is confirmed that Sanjay Manyal, MBA (Finance) and Tejashwini Kumari, MBA (Finance), Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.